

Analogue

September 19th, 2017

City of Victoria
No. 1 Centennial Square
Victoria, BC
V8W 1P6

Attn.: Mayor & Council

Re: Rezoning & Development Permit Application
505, 517, 519, 521 Quadra Street & 931 Convent Place, Victoria, BC

Analogue Projects Ltd., on behalf of Surfside Holdings Ltd., is pleased to submit this rezoning and development permit application for the properties located at 505, 517, 519, 521 Quadra Street and 931 Convent Place. The intent of the application is to replace the existing 34-unit Beacon Arms apartments, 2 adjacent single-family homes and duplex in order to construct a new 6-storey, 83-unit, purpose-built, rental apartment building and 4 rental townhomes over top of one level of secure underground parking and bicycle storage.

History

This approximately 1-acre site is predominantly characterized by the 34-unit Beacon Arms apartments. Surfside Holdings Ltd. – a family-owned company currently in its 3rd generation of ownership – has owned the Beacon Arms since 1979 and has responsibly managed it ever since. Over the past 20+ years, Surfside Holdings has acquired the adjacent properties in anticipation of the Beacon Arms' inevitable redevelopment.

The Beacon Arms was constructed in 1965 and is now approaching the end of its useful life. The building is experiencing significant issues, such as a failing foundation, aging plumbing and pipes, sagging windows, exterior siding that is separating from the structure, etc. This proposal is a proactive response with the intent to create a new, energy-efficient, rental legacy for this site.

Project Benefits

The benefits of this project are substantial. The total number of rental units on the site will be more than doubled. This project will replace 34 aging rental apartments, 2 rental houses, and a rental duplex with 83 new, efficient purpose-built rental apartment units. In addition, there are 4 rental townhomes for a total unit count of 87. The townhomes are 3-bedroom + den and will be a perfect fit for families. The intent is to provide long-term rental solutions for a broad range of ages and needs.

The building design has been carefully considered to respond to the neighbourhood. High-quality materials such as brick provide a timeless look that reflects the existing character of nearby buildings. The inclusion of garden suites with patios will enhance the overall public realm and bring a sense of connection to the street. The lower-scale massing of the townhomes along Convent Place responds directly to the neighbouring properties while at the same time allowing for a more substantial separation between the adjacent buildings thus providing more privacy.

Landscaping has been given careful consideration. The garden suites will have private patios and the common areas around the building are designed to cater to a wide range of uses. Abundant greenspace, community gardens for residents, and indoor/outdoor amenity spaces for entertaining larger groups will all add to the sense of community being fostered within the building and is a great benefit for families.



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The street parking in the vicinity will be improved by the increased on-site parking ratio. The existing building has a parking ratio of approximately 0.67 parking spaces per suite, whereas the new building will have a ratio of greater than 1.0 parking spaces per suite. Parking for the project is secure and entirely underground, providing a total of 95 tenant and visitor parking spaces for our 87 suites.

Secure bicycle parking is being provided based on the new bylaw requirements. The current bylaw requires 87 bicycle stalls. We are providing 110 bicycle stalls. The bicycle stalls will be located with convenient, at-grade access from the parkade directly onto Quadra Street, facilitating ease of access.

Further, we have made allowances for 6 scooter parking stalls located around the elevator lobby in the parkade level for tenants with mobility concerns.

Tenant Engagement and Relocation Plan

In February of 2017, when we first contemplated this proposal, we met individually with each of our tenants in order to give them an early indication of our redevelopment intentions. It was important to us that we contact them first before we announced our plans to the public-at-large. At that time, we committed to the tenants that we would keep them informed of our progress on a regular basis by way of an e-mail distribution and postings in the common areas of the building.

In view of the current low vacancy rate, we also offered to assist our Existing Tenants in finding alternate accommodation in the neighbourhood. We define "Existing Tenants" as those tenants in situ as of February 1, 2017.

Surfside Holdings is fortunate to own and manage another 160 units in Fairfield and James Bay. We have offered Existing Tenants the first opportunity to rent in our other local properties as vacancies come available. Additionally, Analogue Projects has 116 units in Fairfield and James Bay which are being made available to Beacon Arms tenants on a priority basis. In total, that is 276 units across six local buildings which are potentially available for selection by our Existing Tenants as vacancies arise. During the approximately eighteen months, before redevelopment begins, no one will be rushed into making a hasty choice. Given that the normal tenancy turnover rate is about 20% - 25% per year in all our buildings, there will be ample selection for all Existing Tenants.

We understand that some tenants, particularly the elderly, may be anxious and upset at the prospect of moving. Accordingly, we have hired a Tenant Relocation Coordinator, beginning October 1st, to assist our Existing Tenants in their relocation search and moving arrangements.

A summary of our ***Tenant Relocation Plan*** is as follows:

- A. Rents have been frozen at their current levels for Existing Tenants effective February 1st, 2017.
- B. Tenants are being informed on a regular basis, by email and by posting in a common area, about upcoming vacancies in other buildings within the Surfside and Analogue portfolios. Tenants will be given first opportunity to rent any vacancies. Tenants are given approximately one week's advance notice of any vacancies prior to them being advertised to the general public. In addition, the locations of our other properties, and the contact information for their respective resident managers, have been made available to all the Existing Tenants.
- C. The Tenant Relocation Coordinator will be responsible for keeping the remaining Existing Tenants informed and facilitating their relocation prior to the issuance of a demolition permit.

To date, there are 24 Existing Tenants remaining. Ten tenants have already relocated—some to our other properties and some elsewhere. As time goes on, normal turnover will continue to reduce the number of



Existing Tenants, possibly at an accelerating pace. Between the normal turnover and the efforts of our Tenant Relocation Coordinator, we anticipate that there will be relatively few of the original Existing Tenants still in place by the time we have completed the development approval process. We will keep City staff informed as to our progress.

Community Engagement

Our community consultation process included neighbouring properties, the Fairfield Gonzales CALUC and the surrounding community. This process informed our concept and design. A summary of the consultation is as follows:

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|---|--|
| ▪ Pre-Planning Meeting, City of Victoria: | February 15 th , 2017 |
| ▪ Tenant Engagement, Beacon Arms: | February 22 nd – February 25 th , 2017 |
| ▪ Pre-CALUC Meeting: | February 23 rd , 2017 |
| ▪ 906 Southgate Strata Council Meeting: | March 8 th , 2017 |
| ▪ Pre-Application Open House: | April 20 th , 2017 |
| ▪ CALUC Presentation: | May 15 th , 2017 |

Feedback for the project was mostly gained from the Pre-Application Open House and the CALUC Presentation. A summary of the feedback is as follows:

Pre-Application Open House:

The Pre-Application Open House was held on April 20th, 2017 at the Church of Our Lord located at 626 Blanshard Street from 5:00pm – 7:00pm.

- 700 invitations were delivered by Canada Post
- 34 people registered at the Open House
- 17 feedback forms were received
- Generally, feedback was supportive especially because the proposal is a purpose-built rental building as opposed to strata condominiums. The architecture and massing were generally supported. The primary concerns expressed pertained to the increased traffic and parking along Convent Place. Suggestions were made to have access come off of Quadra Street

CALUC Presentation:

The CALUC Presentation was held on May 15th, 2017 at the Fairfield Gonzales Community Centre located at 1330 Fairfield Road starting at 7:00pm. A report from the CALUC has been submitted to Staff summarizing the questions and concerns regarding the project. Community comments centred around: concern for existing tenants; opposition to the modern design of the townhomes; and concerns regarding access to the parking from Convent Place.

Addressing Concerns:

To address the concerns raised from the Pre-Application Open House and the CALUC Presentation, we performed the following:

- Bunt & Associates traffic engineers were engaged to perform a Traffic Impact Assessment for the proposal in order to address the concerns regarding parking and access off of Convent Place. They analyzed the existing and future traffic operations. Considerations were given to traffic volumes, queueing generated by turning, alternative forms of transportation i.e. transit, bicycles, etc., and the land use in relation to the street network. Their conclusion was that the “proposed development

is anticipated to have minimal impact to vehicle operations...” Further, the consultant raised concerns regarding the safety of vehicles making left-hand turns onto and off Quadra Street.

- The architecture of the townhomes was amended to move away from contemporary design. The revised design uses materials similar to those being used in the apartment building, such as brick. The design is now a more traditional aesthetic to match the character of the surrounding properties.

Site Context, OCP & Zoning

The site is located at the intersection of two Secondary Arterial roads, Southgate Street and Quadra Street. It is bordered by a variety of building types and land uses including Beacon Hill Park, multi-unit residential buildings ranging from 3-7 storeys and one- and two-storey single-family and attached dwellings. The 40,231sf site is comprised of three parcels with differing zoning: R3-AM-1; R3-A1; and R-K. As the current zoning on the site only allows for a maximum of 4 storeys a rezoning is required. However, the site is designated as Urban Residential by the OCP, meaning it is intended for multi-unit residential buildings up to 6 storeys.

Project Description

Massing & Siting:

Creating a higher density family-oriented rental community within close proximity to single family lots, influenced this project's massing and siting. We chose to lessen the massing along Convent Place in order to transition from single family homes to the proposed townhome units and ultimately to the multi-storey apartment building located at the south west corner of the site. This is in keeping with the existing increased density of multi-storied buildings along Southgate Street. The proposed multi-storey building is weighted towards Quadra Street in order to provide ample separation between the neighbouring apartment building to the east while minimizing the shadow impacts to the east.

The buildings are situated in such a way to provide a cloistered internal courtyard that provides semi-private greenspaces, individual private patios and an outdoor community area outside of a multi-purpose room.

In terms of massing, the development is comprised of a 6-storey multi-family building, a 3-storey townhouse building and below grade parking with an FSR of 2:1. The building follows the intent of the Official Community Plan (OCP) Urban Place Guidelines for Urban Residential which allows for six storey buildings. Additionally, three to five storey brick building facades define the street wall on Quadra Street and Southgate Street with upper storeys visually set back above.

Streetscape / Relation to street:

The building has been provided with significantly increased landscaped setbacks along the majority of Quadra Street in order to reduce the visual massing along public/pedestrian routes. Ground floor units have individual garden gates, patios and main entrances with direct access to the sidewalks. The building lobby has a prominent canopy and fully glazed wall to help clearly identify the building entrance. These elements of the building form address the principles of the OCP Design Guideline Section 2 which state that “individual entrances with direct connections to the public sidewalk are encouraged” (2.4.1) and “residential use at street level should have strong entry features and building designs that encourage interaction with the street.” (2.4)

Exterior Finishes:

Strong horizontal cues were introduced on the lower floors utilizing high quality, durable and traditional finishes including brick cladding, EFIS cornice, picket guardrails, and heavy concrete lintels and sills. The upper floors use a lighter modern aesthetic with larger spans of glazing, glass guardrails, corrugated metal siding and topped off with a thin roof fascia profile that follows the undulating exterior walls. The juxtaposition of these two styles (modern on top of the traditional on bottom) helps to emphasize a “setback” look of the upper floors in order to reduce the visual impact of the 6-storey building. The use of brick on the lower floors off of Quadra Street and Southgate Street and robust contemporary materials on the upper floors provide a timeless look to the building while addressing the OCP guidelines for exterior finishes, which state that “exterior building materials should be high quality, durable and capable of weathering gracefully.” Additionally, the brick façade wraps the south/east corner where it transitions to a robust stucco façade on the east elevation. This use of materials addresses the OCP guidelines which state that “quality materials used on the principal façade should be continued around any building corner or edge which is visible from the public realm.”

Blank wall surfaces have been treated in a variety of ways. Above-grade parkade walls are lined with planter beds containing varied and luscious landscaping. The north elevation, comprised primarily of a stucco wall finish hosts an illuminated building sign stating: “The Beacon”. These measures address guideline 4.3 which state that “exposed party walls and blank side elevations, where necessary should incorporate features such as texture, reveals, colours, planting or other treatments to provide visual interest.”

Materials have been carried over from the multi-storey building to the townhouse units, including the brick walls, EFIS cornices, concrete lintels and sills, corrugated metal at upper floors and wood-like soffits to provide cohesion between the buildings.

Safety & Security (CPTED)

The programming and configuration of buildings provide healthy opportunities for natural surveillance. While privacy is maintained for individual dwellings, all common areas and outdoor spaces have sightlines from multiple dwelling units. The buildings will also be equipped with ample video surveillance and on site security.

Landscaping has been utilized to create a sense of ownership for residents on the site. Symbolic barriers in hard and soft landscaping create a sense of place when entering the site. Additionally, ample outdoor spaces – including a community garden – and programmed courtyards and benches provide places for residents to meet and interact.

Transportation & Infrastructure

The site is well situated and fully serviced by City of Victoria infrastructure. Beacon Hill Park, schools, hospitals, commercial facilities including auto repair, restaurants, convenience stores, and cultural centers are all within walking distance from the site. Additionally, being in close proximity to Downtown and Cook Street Village the site has adequate work and shopping opportunities, making the site suitable for an increased population density. The site has adequate transportation infrastructure to serve the increased population, including bus stops to service multiple bus routes and direct access to bike lanes and two Secondary Arterial roads.

An intensive Traffic Impact Assessment has been undertaken by Bunt and Associates to define the off-street parking demand for the site. While the proposed parking supply does not meet the current Bylaw minimum of 114 spaces for the site, it does meet the Proposed Bylaw minimum of 95 spaces, based on the

Cities Off-Street Parking Review. Bunt's analysis indicates that the 95 parking spaces will meet the peak period parking demands and proposed Bylaw requirements. The analysis therefore recommends that the vehicle parking supply is appropriate for the proposed development.

The development will exceed the bylaw requirements and Off-street Parking recommendations for bicycle parking by supplying 125 Class 1 (long term) spaces and at least 6 Class 2 (short term) spaces

Green Building Features

We plan to construct the building using the following green building features as per the City's Green Building Indicators:

- Rating system:
 - We plan to construct and develop the project using the principles and guidelines of Built Green Canada as a reference. Any decision to pursue formal certification under Built Green will be determined during construction.
- Passive Design:
 - Maximum of 50% windows on all facades
 - Overall wall assembly RSI value target between 2.3 and 2.9
 - Use of heat recovery ventilation during heating season only, and use of natural ventilation for ventilation and cooling during the remainder of the year
 - Use of clear glass with low U-value and low-e coating
 - All windows EnergyStar rated
 - Minimal glazing on north façade of the multi-family building for increased thermal performance
- Innovation and Design:
 - All ductwork to be sealed with low toxin mastic
 - Individual residences have private outdoor deck living space
 - Natural and recyclable building materials used where possible, and where possible materials will be sourced within 800km of the site. Exterior envelope materials are highly durable, and detailing will suit life-span management of components.
 - Directly metered suites
 - Multiple thermostatically controlled heating zones within each residence
- Building retention and reuse
 - The existing building is experiencing significant issues, such as a failing foundation, aging plumbing and pipes, sagging windows, exterior siding that is separating from the structure, etc. The proposed development will provide a significant increase in density to the site. To achieve this density and the required parking, a new building is required with below grade parking covering the majority of the site. Best practices will be used for disposal of building material including recycling of building material where possible.
- Transportation
 - By using the Cities proposed off-street parking and bicycle parking Bylaw minimums rather than the current Bylaw minimums, the project will provide increased bicycle parking and decreased vehicle parking.
- Energy efficiency
 - The project aims to reduce energy use by 10% compared to ASHRAE 9.1 2007.

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- Renewable Energy
 - The building will obtain a minimum of 5% of building energy consumption through the use of a heat recovery ventilation
- Water
 - High efficiency toilets, clothes washing machines and showerheads will be used
 - Faucets with flow rate of 8L/min or less will be used
- Site Permeability
 - Permeable surfaces will be used in open site space, where possible
- Landscaping and urban forest
 - The development will see an increase in the number of trees on the site
 - Landscaping will be of native or adapted vegetation, typically.
- Urban agriculture
 - A community garden will be provided for tenant use

Closing Comments

We request Council's favourable consideration of our proposal. The City desperately needs more rental supply, particularly during the current housing crisis. Our project represents a positive step in this direction.

The number of rental suites on the site will be more than doubled. This can be achieved with only a minimal increase in zoning density. This is a relatively rare opportunity within the City since we are able to consolidate three contiguous single-family parcels of low current density with the existing apartment property.

Rather than build another strata condominium project, we have chosen to build a purpose-built rental project. We are prepared to forego the short-term financial profits of condominiums for the longer-term investment of rental apartments, since we plan to retain ownership for the foreseeable future. Rental property is the business our family knows, and has been committed to for four decades and three generations. We hope to continue our legacy with this and other properties.

Sincerely,
ANALOGUE PROJECTS LTD.



Stuart Kerr
Principal

Analogue

August 20th, 2018

City of Victoria
No. 1 Centennial Square
Victoria, BC
V8W 1P6

Attn.: Mayor and Council

**Re: Development Application Revisions
Rezoning and Development Permit Applications REZ00610 and DP00511
505, 517, 519, 521 Quadra Street & 931 Convent Place, Victoria, BC**

This letter is submitted to provide context and updates to various aspects of our development proposal for the construction of a new 83-unit residential apartment building and 4 townhouses on the above noted properties, specifically:

- A. Tenant Update
- B. Design Revisions
- C. 20-Year Rental Covenant
- D. Economic Considerations of Purpose-Built Rental

A. Tenant Update

Tenant Assistance Plan

Since February 2017, we have been updating our tenants on our development progress through regular, monthly updates and we have been offering our tenants first-priority to rent vacant units in other apartment buildings in our portfolio. In addition, since February 2017, we have frozen rents in the existing Beacon Arms building and existing houses on the property, foregoing the 3.7% (2017) and 4.0% (2018) allowable rent increases. Since then, the City has developed a new Tenant Assistance Policy to be implemented in September 2018. We are pleased to confirm that we have adopted all of the City's recommended policies and folded in many of our pre-existing tenant compensation and tenant assistance measures in order to create a new and even more robust Tenant Assistance Plan that fully meets and, in some respects, even exceeds this new policy. Please refer to our letter dated July 26th, 2018 for further details.

Beacon Arms Vacancies

At the time we started our consultation process with our tenants and the broader community in February 2017, the Beacon Arms and adjacent houses were 100% occupied (38 tenants). As we progressed through the process, many tenants decided to relocate to other housing of their own accord. Prior to December 11th, 2017, we had some success in re-renting vacant suites by using shorter, fixed-term tenancies offered at a discounted rent. The recent changes to the Residential Tenancy Act have limited the use of fixed-term tenancies and so this option is no longer available to us or prospective tenants. As a result, the Beacon Arms is now only 50% occupied (17 tenants). We expect that this condition will worsen as we continue. The current loss of revenue due to vacancies is approximately \$14,500 per month.



B. Design Updates

On February 28th, 2018, we had the opportunity to present our development proposal to the Advisory Design Panel. Based on their feedback and our on-going discussions with City staff, the following outlines the revisions reflected in our most recent submission dated August 20th, 2018. They are as follows:

Character

Through our initial public meetings, we heard from the community that they desired a more traditional approach to the architecture. Our initial submission weighed heavily towards that aesthetic. However, feedback from Advisory Design Panel suggested a desire for a more contemporary approach. In order to balance the views of the community and the Advisory Design Panel, this most recent submission maintains many of the elements of traditional architecture, but introduces modern elements applied in a more transitional way. This is accomplished by maintaining enduring materials such as brick along the base of the proposed building but introducing lighter materials such as Hardi-Panel to the top. Simplified window details and less-ornate cornice features help to transition the building's overall character. The current design is a wonderful balance between the two design philosophies.

Form and Massing

We heard from both Staff and Advisory Design Panel that they would like to see the massing of the building broken up and reduced. We addressed these comments by stepping-back the 6th floor of the proposed building on all sides in order to bring down the scale of the building – which now appears as a 5-storey building from the street. The impact of this is that we have reduced the density from 2.0 to 1.9 and adjusted the unit mix to allow for an even percentage of 2-bedroom vs. 1-bedroom units. To further address the comments about height, the brick was retained along the base and reinforced at strategic corners of the building. The exterior cladding on the upper floors was horizontally banded to reinforce the perception of lower height.

Another comment from Staff and Advisory Design Panel was that given the length of the site, they wanted to see some design measures to mitigate the perception of length; however, the site is generally long and narrow, so the building naturally reflects that. To address this, larger breaks in the face of the building have been introduced and repeated using the inset balconies. This breaks up the apparent length of the building.

We also heard feedback that the corner of Quadra and Southgate required a stronger presence. Therefore, the southwest corner of the building has been raised and twisted at an oblique angle to give it more significance and interest. By twisting this corner, an opportunity arises to provide exterior balconies along its mid-elevation. This also helps to step the building back off of Southgate. Brick has been maintained as the prominent material choice to help anchor the corner.

C. 20-Year Rental Housing Covenant

Our proposal does not contemplate a stratification of the development and we have no intention of doing so; however, we recognize that Council wishes to secure long-term rental housing. Therefore, to further demonstrate our commitment to rental housing in the City of Victoria, we are voluntarily offering to place a covenant over the development to ensure that the development remains rental housing without restrictions for a period of 20 years.

While it is not our intention to stratify the apartment building at any time, Council can be secure in knowing that the development will be secured as rental housing for at least 20 years. After that period, any

stratification of the development would require approval of the City and, if the future owner wished to pursue stratification, the Council at the relevant time could consider a change in use of the building based on the then prevailing circumstances.

D. Economic Considerations

Based on meetings regarding our development proposal with various members of Council, it was suggested that some discussion of the economic considerations around our development proposal would be helpful. As we have said, the economics of purpose-built, rental apartment buildings are very different from those of other possible uses for the properties, such as a 'for-sale' condominium project. Below is some discussion of some of the major differences.

Valuations

Valuations of rental apartments are significantly lower than valuations for condominiums.

Rental apartments are valued and financed based on their net income, resulting from rents paid by tenants after deducting maintenance and other expenses. That net income is then capitalized at a rate determined by the investment market (~ 4.5%) to arrive at the market value of the rental apartment building as a whole and the individual rental units. If either (1) the values of the rents for the rental units, individually or as a whole, go down or (2) the number of rental units goes down, then the viability of the rental apartment building diminishes exponentially.

For example, assuming the tenant of a rental unit pays monthly rent of \$1,000, banks and others in the marketplace would calculate the value of that rental unit as follows:

Example: $(\$1,000 \text{ per month of rent} \times 12 \text{ months}) / 4.5\% = \$266,666 \text{ value of the rental unit}$

Currently, the value of new rental apartment units in this location within the City of Victoria would be approximately \$350,000 - \$450,000 per rental unit, given current rent levels.

Conversely, condominium projects are valued and financed based on their profitability. Net sales revenue is subtracted by the overall costs of purchasing the land and constructing the building in order to achieve a certain profit margin (which is usually 15-20%).

The value of new condos in this location would be valued from \$500,000 - \$1,000,000, depending on the size, number of bedrooms and bathrooms, and level of fit and finish, and other factors.

As you can see, the development of a condominium project yields much higher values to a developer/owner than does a purpose-built, rental apartment building and, given the alternative of a condominium project, the viability of developing a purpose-built, rental apartment building is highly dependent on the rents and number of units in the building.

Land Values

Re-development and re-construction of new, purpose-built, rental apartment buildings in place of existing purpose-built, rental apartment buildings is, in most cases, prohibitive because of the land cost.

In June 2018, Coriolis Consulting Corp. performed an economic analysis specifically for our development proposal and submitted it to staff. The purpose was to determine what the difference was between the land

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value of the properties under the current zoning and the land value of the properties after rezoning, all for the purpose of calculating Community Amenity Contributions. The results were as follows:

Estimated Change in Value Due to Rezoning	Estimated Property Value (improved)	Estimated Land Value (unimproved)
Value based on Existing Use & Zoning	\$9,225,000	\$7,975,000
Estimated Land Value Under Applicant's Proposal for Rental Apartments	\$6,698,000	\$6,698,000
Difference	(\$2,527,000)	(\$1,277,000)

For clarity, the above shows that the properties of the existing Beacon Arms and existing houses are worth \$9,225,000 as an existing rental operation or \$7,975,000 as vacant land; however, a 3rd party developer would only be able to value the property at \$6,698,000 with a view to developing and constructing a condominium project. Depending on the lens of analysis, by pursuing the development and construction of a purpose-built, rental apartment building according to our development proposal we are effectively devaluing our land anywhere from \$1,277,000 - \$2,527,000. This analysis reinforces the significance of our eventual contribution towards the creation of rental housing in this location.

The discrepancy in land values is why density is such an important factor as it relates to rental development. The existing stock of market rental apartments is dominated by 4-storey buildings. The inherent value of these buildings as income-producing properties is higher than their developable value unless there is an opportunity to (a) assemble with adjacent, lower-density land in order to achieve higher overall density in a new building or (b) to build on the existing land at substantially higher density than the 6-storeys contemplated in certain areas of the OCP.

Construction Costs

Even though the value of rental apartments are significantly lower than the value of condominium units, the construction costs of building rental apartments are almost the same.

Condominiums and purpose-built, rental apartments have moved closer and closer towards the same level of fit and finish. As a result, the costs to construct both types of developments are now almost the same in most cases. Condominiums are generally more expensive because the level of fit and finish is slightly higher and there are greater costs for sales and marketing; however, that gap continues to shrink. Our current estimates are that the total costs to construct are, for condominiums, approximately \$345 per square foot and, for rental apartments, \$329 per square foot – a difference of only ~\$15 per square foot. In light of the difference in valuation

In addition, the fact that construction costs have been steadily climbing at a rate of 5% - 10% annually in recent years is a further complicating factor for the viability of developing and building rental apartments.

Summary re Economic Considerations

The differences discussed above in the economics of developing purpose-built, rental apartment buildings result, in most cases, in significant incentives for developer/owners to develop and build condominium projects on their properties.

We in the unique position to be able to propose a purpose-built, rental apartment building for these properties because, as we have said, our family has owned the properties for nearly 40 years and, therefore, we have not had to factor in the cost of acquiring the land at current values for the existing Beacon Arms

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and houses. However, we are still cognizant of the economic challenges surrounding our development proposal and, more generally, our commitment to rental housing in the City of Victoria.

Conclusion

We are very proud of the revised proposal that we are presenting. It represents a real opportunity to greatly increase the number of rental units in an area of the City that has seen little-to-no increase in this inventory for quite some time. Further, this represents the continuation of a legacy of proud rental ownership for the foreseeable future.

Thank you for your consideration.

Sincerely,
ANALOGUE PROJECTS LTD.

A handwritten signature in black ink, appearing to read 'Stuart Kerr', with a long horizontal flourish extending to the right.

Stuart Kerr
Principal

